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No. [redacted]

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[redacted]
P. Cotter, *Petitioner*,

v.

Brockman Instruments, Inc., *Respondent*.

[redacted]

BRIEF OF RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1970

No. 1210

TECHNICAL DEVELOPMENT CORPORATION and FRANKLIN F. OFFNER, *Petitioners*

v.

BECKMAN INSTRUMENTS, INC., *Respondent.*

BRIEF OF RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

OPINION BELOW

The opinion of the Court of Appeals for the Seventh Circuit (A. pp. 5a-17a)* is now officially reported at 433 F. 2d 55.

QUESTION PRESENTED

Whether the court below was correct in holding that this Court's decision in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969) permits an exclusive licensee to challenge the validity of a licensed patent.

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* Such citations are to Petitioners' Appendix and pages therein.

STATEMENT OF THE CASE

Petitioners request this Court to grant a writ of certiorari to review that part of the order of the court below which reverses the summary judgment entered against respondent and remands this case to the district court for a trial of respondent's claim that U. S. Patent No. 3,225,305 (" '305 Patent") is invalid. Respondent, Beckman Instruments, Inc. ("Beckman") opposes the petition. It is foreclosed by this Court's ruling in *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969).

Proceedings Below

Count I of the complaint filed by Beckman in the district court seeks a declaration of invalidity, noninfringement and unenforceability with respect to the '305 Patent, which became sublicensed to Beckman under the terms of the exclusive sublicense agreement between Beckman and petitioner, Technical Development Corporation ("TDC"). The district court, relying solely on the licensee estoppel doctrine, granted petitioners' motion for summary judgment. Two months later, this Court overruled this doctrine in *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969). Rejecting petitioners' argument that the decision of this Court in *Lear* be limited to nonexclusive licenses, the court of appeals reversed the summary judgment and remanded the case for trial of Beckman's challenge to the validity of the '305 Patent.

Procurement of the '305 Patent by Petitioner Offner

Petitioner, Franklin F. Offner ("Offner") organized and controlled two corporations engaged in the business of developing, manufacturing and selling scientific and military equipment (App. II, pp. 5-18)*. Some

* "App." refers to the Appendix filed in the Court of Appeals.

developmental work done by the two corporations (Offner Products and Offner Electronics) resulted in patent applications and patents paid for by the corporations but issued to Offner (App. II, pp. 395-397, 458-460).

Petitioner TDC, created by Offner as a closely held corporation, was given an exclusive license under the patents and patent applications issued to Offner (App. II, pp. 367-386, 394-395; App. III, pp. 169-182). TDC issued a non-exclusive license to Offner Electronics (App. III, pp. 183, 185). The utilization of TDC as an exclusive licensee of Offner's patents and TDC's grant of a non-exclusive sublicense to Offner's operating company had the purpose of obtaining for Offner favorable tax treatment on the proceeds of his inventions (App. II, p. 452).

The application on which the '305 Patent issued was filed on January 3, 1962, as a "division" of an earlier application filed April 29, 1954 (App. III, p. 11). More than one year before this "division" was filed, Offner had disclosed such a transistorized differential amplifier in a printed publication (App. III, p. 14). Almost ten years before this "division" was filed, Offner had characterized his transistorized differential amplifier as "similar to a conventional vacuum tube differential amplifier" (App. III, p. 8).

The '305 Patent application was rejected by the patent examiner who cited an earlier patent that disclosed a vacuum tube differential amplifier and who found that the substitution of transistors for vacuum tubes would be an obvious expedient to one having ordinary skill in the art (App. III, pp. 69, 70). Offner appealed from this rejection, arguing that the earlier patent in-

cluded a drift correction network and effected compensation for drift in a different manner than that employed by Offner's device (App. III, p. 81). During the entire prosecution of the '305 Patent application, Offner and his attorneys failed to inform the Patent Office of Offner's own earlier published disclosures directed to vacuum tube differential amplifiers which omitted a drift correction network (App. II, p. 290). Whether the substitution of transistors for tubes in the above described well-known vacuum tube differential amplifier circuit met the standards of patentability of Sections 102 and 103 of the Patent Code was never considered by the Patent Office Board of Appeals (App. III, pp. 99-100).

During his deposition examination, Offner was confronted with prior art that had not been cited to the Patent Office and was unable to point out any feature distinguishing the '305 Patent over this art (App. III, pp. 12, 152).

The Sublicense from TDC to Beckman

TDC and Beckman entered into an exclusive sublicense agreement on April 8, 1961 (App. I, p. 11). Twenty-one United States patents and patent applications were expressly included in the license (App. I, p. 21). Although Offner had prepared a draft of the '305 Patent application in May of 1960, it was not disclosed to Beckman before the signing of the sublicense (App. II, pp. 498-503). Under the sublicense agreement, as construed by the district court, the '305 Patent application upon its filing in 1962, and the '305 Patent upon its issuance in 1965, became sublicensed to Beckman (App. I, p. 156). Count I of Beckman's complaint resulted from the demand of TDC that

Beckman pay royalties on all devices manufactured and sold by Beckman employing the art of the '305 Patent.

According to Offner, the art of the '305 Patent is "used by many companies" (App. III, p. 366), and business done in these devices is in the millions (App. II, pp. 519-523). Nevertheless, no action for infringement of the '305 Patent has been instituted. No license has been granted to any third party. The industry has ignored the patent (App. II, pp. 523-526).

ARGUMENT

A. The Judgment of the Court of Appeals Was Reached by a Careful and Appropriate Application of the Law Enunciated by This Court in Lear, Inc. v. Adkins, 395 U.S. 653 (1969)

This Court's decision in *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969) abolished the licensee estoppel doctrine. The opinion of this Court, without qualification or exception, repudiates the licensee estoppel rule and expressly overrules its contrary holding contained in its earlier decision in *Automatic Radio Co.* v. *Hazeltine Research, Inc.,* 339 U.S. 827 (1950).

Petitioners seek to resurrect the licensee estoppel doctrine by seizing upon the fact that the contract before this Court in *Lear* was a non-exclusive rather than an exclusive license. Because this Court was concerned with eliminating restrictions of contract law which hindered full and free competition in the use of ideas which are a part of the public domain, the exclusive or non-exclusive nature of the license was not regarded as worth mentioning in the Court's opinion. To suggest that this Court's decision in *Lear* should be limited in its application to a particular type of license agree-

ment is to misapprehend the scope and meaning of this Court's holding. The petitioners are seeking, in effect, a rehearing on this Court's ruling in *Lear* ". . . that the technical requirements of contract doctrine must give way before the demands of the public interest." (395 U.S. at p. 670).

The court of appeals below, however, did not misapprehend the scope or meaning of this Court's ruling and, in rejecting petitioners' arguments that an exception be engrafted for exclusive licenses, stated (433 F.2d at p. 58; A., pp. 8a-9a):

> "Even if the failure to distinguish between exclusive and nonexclusive licenses was oversight, we are not convinced that the Supreme Court would rule differently on the facts of this case. Nor can we say that the distinction which the defendants suggest is so great as to require a limitation on the *Lear* rule, especially in light of the 'strong federal policy favoring free competition in ideas which do not merit patent protection.' *Lear* v. *Adkins,* supra at 656.
>
> "Defendants also argue that an exclusive licensee enjoys a monopoly unavailable to a nonexclusive licensee and, having gotten his bargain, should not be allowed to escape royalty payments, especially when the patentee is prevented from licensing to others. But, as plaintiff correctly points out, the whole purpose of this suit is to show that Offner in fact invented nothing and that plaintiff was paying for the use of unpatentable ideas. Moreover, substantially similar arguments as the defendants make were rejected by the Court in *Lear*. There the Court said:
>
> 'Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas

> which are in reality a part of the public domain. . . . We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest. 395 U.S. at 670.' "

The judgment of the court below was clearly a proper one. It is impossible to read the *Lear* decision as one which merely creates another exception to the licensee estoppel doctrine. The court of appeals refused to permit the manifest purpose of the *Lear* decision to be frustrated by reference to an obscure fact buried in the record and not deemed worthy of mention by this Court in its opinion.

B. The Question Presented by Petitioners Possesses None of the Qualities Required for This Court To Grant a Writ of Certiorari

Ordinarily, a petition for a writ of certiorari requires a showing on the part of the petitioners that the court of appeals below has rendered a decision which is in conflict with the decisions of another court of appeals on the same matter, or has decided an important question of federal law which has not been settled by this Court or has decided a federal question in a manner which is in conflict with the applicable decisions of this Court. (Rule 19, Rules of the Supreme Court of the United States.) The question presented by petitioners fits none of these categories. Petitioners seek to review the judgment of the court below on the ground that this court has never decided the matter in question. To adopt this erroneous position, petitioners must ignore the lengthy portions of the *Lear* opinion that are devoted to a recapitulation of the history of the licensee estoppel doctrine, the extent to which the rule had been eroded by exceptions and beclouded by

inconsistencies of application, and the failure of past judicial efforts to accommodate the competing demands of the common law of contracts and the federal law of patents. Beyond question, the *Lear* decision was intended to, and does, eliminate the "chaos of conflicting case law" by unequivocally establishing the predominance of the federal policy favoring full and free use of ideas in the public domain over considerations of private contractual relations existing between the inventor and the licensee. 395 U.S. at pp. 668, 670. The *Lear* decision has ended the "uncertain status of licensee estoppel in the case law" by abolishing the rule.

The pretense of petitioners that they are presenting a question of federal law which has not been settled by this Court cannot withstand analysis.

C. The Petition Presents No Grounds for Overruling Lear and Reviving the Licensee Estoppel Rule

The petition not only persists in the erroneous assumption that the *Lear* decision is inapplicable to an exclusive license, but also misapprehends the impact of the *Lear* decision upon an exclusive licensee. Petitioners' policy arguments for limiting the holding of *Lear* to nonexclusive licensees are totally without merit and serve to underscore the absence of any important question of federal law which this Court should settle.

It is obvious that users of a patent, whether licensed or not licensed, have an economic incentive to attack its validity. The degree of incentive will correspond directly to the monetary or other savings expected from operating free of the burdens of the patent. It is true that an exclusive licensee in a highly concentrated or highly specialized industry may be the only one who

can utilize the patent. Contrary to the assumptions of the petition, however, such exclusive licensee may, nevertheless, be subject to competition from other products in other markets. The existence of market dominance is not determined by the patent monopoly but, rather, by the cross-elasticity of demand. To suggest that the exclusive licensee in a highly specialized industry, by definition, enjoys a competitive advantage, is to ignore the economic realities of the market place. It is also possible that the owner of an obviously invalid patent will fail to enforce his patent against industry-wide infringement but insist on extracting his "pound of flesh" from the exclusive licensee. This is exactly the situation presented to this Court in the case at bar. (App. II, pp. 520-527). In this situation only the exclusive licensee has any economic incentive for challenging the licensed patent.

It is thus apparent that there may be many exclusively licensed patents of doubtful validity which are practically immune from challenge by anyone other than the exclusive licensee.

Lear recognizes that every licensee may have economic incentives for seeking the invalidation of a licensed patent. *Lear* further recognizes that the public interest may be best served by a "decent public burial" of the entire doctrine of licensee estoppel which Justice Frankfurter had suggested more than twenty years ago (395 U.S. at p. 667).

To seek to resurrect the licensee estoppel rule against an exclusive licensee is particularly inappropriate and inequitable. An exclusive licensee usually makes minimum payments irrespective of his utilization of the patent and has a reasonable expectation of

acquiring a valid monopoly. By contrast, a nonexclusive licensee typically does not pay minimum royalties and simply purchases for himself freedom from a patent infringement suit. Long before the *Lear* decision it had been authoritatively suggested that the invalidity of an exclusively licensed patent constitutes failure of consideration and justifies abrogation of the licensee estoppel doctrine. In *Bowers Mfg. Co.* v. *All-Steel Equipment, Inc.*, 275 F.2d 809, 811 (9th Cir. 1960) the court commented as follows on the effect of licensee estoppel with respect to exclusive and nonexclusive patent licensees:

> "Cases dealing with both types of licenses are cited indiscriminately. But logic would indicate that a different treatment is justified. The two types of agreements differ basically because the consideration inducing them differs in each. In an exclusive license the monopoly values of the patent loom large. The license is in effect a grant of the patent. But a non-exclusive license cannot eliminate competition. It constitutes little more than a shield from suit for infringement by the grantor. Thus questionable validity of the patent cannot constitute a failure of consideration."

Equitable considerations would dictate, therefore, that the exclusive licensee, in particular, be permitted to challenge the validity of his licensor's patent.

Petitioners would have this Court carefully confine its holding in *Lear* to the facts set forth in the record in that case, namely, the nonexclusive licensee who is seeking to challenge the validity of a patent. By contrast, in making their policy arguments to this Court, petitioners show no reticence to depart from the record. The argument concerning relationships between the "independent inventor" and "the large corporate li-

censee" makes reference to the threatened disregard of the inventor's "life's work" and his financial ability to withstand protracted patent litigation with the licensee. None of this presentation is supported by the record in this case. The record does not reflect that Offner's "life's work" is in jeopardy. Beckman has paid substantial royalties to TDC under the license agreement (App. III, pp. 235-251). The purpose of this lawsuit is to show that Offner invented nothing and that the subject matter of the '305 Patent contains nothing deserving patent protection; that Offner conferred no valuable rights upon Beckman and is benefiting no one but himself by attempting to levy a tribute upon Beckman and its customers by means of the improperly procured '305 Patent. There is nothing in the record to support the suggestion that petitioners lack the financial resources to carry on litigation and such is not in fact the case.

Similarly, the suggestion that, "by hypothesis," Beckman's exclusive license conferred upon it a monopoly position in any relevant product market, is totally without foundation in fact. On the contrary, a separate count of Beckman's complaint in the district court sought the aid of the court by reason of petitioners' refusal to institute infringement proceedings under other patents, sublicensed to Beckman, against parties manufacturing and selling devices employing art for which Beckman was paying a royalty to TDC (App. I, pp. 5-6).

In short, every argument that can be made in behalf of a nonexclusive license for elimination of estoppel rules applies *a fortiori* to the case of an exclusive licensee. The public interest would not be served by reviving the licensee estoppel doctrine.

CONCLUSION

The petition raises no new legal issue of general importance in the administration of the patent laws, and there is no conflict in decisions. The question has already been settled by this Court.

It is therefore respectfully submitted that the petition for writ of certiorari should be denied.

Respectfully submitted,

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